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Curb Medicare Spending The Ryan Way

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Nothing presents as great a threat to the federal budget — and therefore to economic growth — as the persistent and rapid growth of Medicare spending.

The problem appears intractable. Congress has enacted modest cuts, yet everyone from Medicare's chief actuary to the Congressional Budget Office to the International Monetary Fund declares even those cuts to be politically implausible.

Rep. Paul Ryan's (R-Wis.) "Roadmap for America's Future" proposes even tighter limits on Medicare's growth, leading columnist Bruce Bartlett to opine, "the Medicare actuaries have shown the absurdity of the Ryan plan by denying that Medicare cuts already enacted into law are even worthy of projecting into the future."

On the contrary, experience and public choice theory suggest that the Ryan plan has a better shot at reducing future Medicare outlays than past efforts, because the Roadmap would change the lobbying game that fuels Medicare's growth.

Medicare dictates the prices it pays clinicians, facilities, medical suppliers and private health plans through more than a dozen different price-control schemes. Efforts to reduce those prices typically fail because of what Tom Daschle calls the "patient-provider pincer movement": Medicare enrollees and health care providers join forces to undo those cuts.

Each producer that depends on Medicare for its income faces an enormous incentive to lobby for higher prices. The prices for, say, hospital services could make or break a lot of hospitals. And if the hospitals don't lobby to increase those prices, who will? Enrollees like the easy access to medical care that comes with higher Medicare spending.

So when the Balanced Budget Act of 1997 reduces the prices Medicare pays physicians (through the "sustainable growth rate" formula), or ObamaCare reduces the prices for hospital services, home health care and Medicare Advantage plans, we can predict — and experience has shown — that intense lobbying by enrollees and the affected producers will thwart these measures.

Viewed from this perspective, today's Medicare program seems practically designed to protect health care providers.

The Roadmap, in contrast, would substantially diminish each producer group's incentive to lobby for greater subsidies. The Roadmap would give enrollees a voucher with which to purchase insurance. Sicker and poorer enrollees would get larger vouchers, and the average voucher would grow more slowly than Medicare spending has grown in the past.

Larger vouchers would mean greater demand for medical care. Yet each producer group's incentive to lobby for a higher growth rate would be much less than their incentive to lobby to increase the prices Medicare pays them today.

If hospitals lobby for a higher voucher growth rate, how will they know that the added subsidies will come back to them, rather than ambulatory surgical centers? Many groups would just free-ride on the lobbying efforts of other groups.

The fact that more producer groups would care about this growth rate than about each of Medicare's current price-control schemes paradoxically means that each group would spend fewer resources on lobbying. That gives the Roadmap's spending restraints a better shot at surviving the political process than the SGR or ObamaCare's cuts.

The same thing goes for the Roadmap's risk-adjustment formula. If geriatric endocrinologists lobby to give larger vouchers to diabetics, how can they be certain those subsidies will come back to geriatric endocrinologists?

A voucher system would also put downward pressure on prices across the entire spectrum of care. It will be far more difficult for producer groups to obtain or protect excessive risk-adjustment weights when markets are constantly showing how to deliver care more efficiently.

Seniors spend their Social Security checks on lots of things, but we don't see golf courses or metal-detector manufacturers lobbying to increase Social Security spending the way health care providers lobby to increase Medicare spending. This largely explains why, on a per-capita basis, Social Security outlays grow at roughly the rate of the economy, while Medicare outlays grow about 2 percentage points

faster.

Income-adjusted vouchers would also change the game on the "patient" side, by diminishing well-to-do enrollees' incentive to lobby for higher Medicare spending.

Vouchers are the most plausible way to restrain Medicare spending. They are also the most humane way, because they let enrollees retain the benefits that mean the most to them. Ryan is the only member of Congress taking this problem seriously.

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